

DOCKET SECTION

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268

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Postal Rate and Fee Changes, 1997

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Docket No. R97-1

REPLY BRIEF OF AMMA

The Advertising Mail Marketing Association submits this brief in reply to certain of the arguments on brief of certain other intervenors.

1. The Drop Entry Discounts

The Postal Service endorses the testimony of Joseph E. Schick (AMMA-T-1, Tr. 27/15234-42) concerning the importance of maintaining some close to the current differential between the discount for mail entered at BMCs and mail entered at SCFs:

The Commission should consider the expressed importance of the DBMC-DSCF differential when recommending the passthroughs.

Initial Brief of the United States Postal Service ("USPS Brief") at V-179. It opposes, however, the 100% dropship savings passthrough proposed by Dr. Andrew and endorsed by Mr. Schick as a mechanism for accomplishing this result. *Id.*, V-178-179. Apparently, the Postal Service prefers to maintain the BMC/SCF differential by one or the other of two methodologies suggested in Mr. Moeller's answer to interrogatory MASA/USPS-T36-5 (c), Tr. 6/2761. Mr. Moeller there proposes that the differential could be maintained either by instituting the 80 percent passthrough for SCF and DDU entered mail and decreasing the passthrough to 70 percent of actual savings for BMC entered mail or by increasing the current discounts by .1 cents in each of the dropship

entry categories. The current per piece discounts and those proposed by the Postal Service, proposed by Dr. Andrew and implied by Mr. Moeller's interrogatory answer are as follows:

Destination Entry Discounts (cents)

Entry Point	Current	USPS Proposed	Andrew Proposed	Moeller 11 ¹	Moeller 22 ²
BMC	1.3	1.5	1.9	1.4	1.3
SCF	1.8	1.8	2.3	1.9	1.8
DDU	2.3	2.3	2.8	2.4	2.3

Each of the alternative proposals advanced by Mr. Moeller shares precisely the vice for which Dr. Andrew criticizes the USPS proposed rates; all represent passthroughs of less than 100 percent and, in consequence, induce economically irrational behavior.

Dr. Andrew's concession, on cross-examination, that "if the cost avoided by the Postal Service in certain instances is less than the discount claimed, then maximum productive efficiency is not met in those instances", USPS Brief at V-178, does not detract from this conclusion. Dr. Andrew relied on the cost savings calculated by the Postal Service itself in setting the discounts that would result from a 100 percent passthrough of savings. There is every economic reason to favor the discounts advocated by Dr. Andrew. They have the collateral beneficial effect of serving the interest to which Mr. Schick testified which are conceded by the Postal Service to be

¹ Current plus .1 cent

² 80% SCF, DDU, 70% BMC.

important. Dr. Andrew's 100 percent passthrough discounts should be adopted by the Commission.

MASA has endorsed the discounts proposed by Dr. Andrew. Initial Brief of Mail Advertising Service Association International at 7. MASA argues, however, that the Commission should " . . . reject Andrew's proposal to increase basic rates in order to expand the discount differential between dropship levels." *Id.* The first-offered basis for this position endorses the interrogatory answer outcomes from Mr. Moeller that we have discussed above and, for the same reasons that we discussed above, we find that position objectionable. MASA also urges that " . . . because of the Postal Service's *apparently profitable test year and the over-estimation of its revenue requirement*, the Commission has the flexibility to increase the differential in this case without increasing the basic rate." AMMA has no objection to this outcome.

The NAA also opposes the 100 percent passthrough of dropshipment savings advocated by Dr. Andrew. It claims that pieces weighing less than the break point will be over-rewarded by increased discounts. This position is based on the belief that " . . . the bulk of the dropshipment cost savings are indeed likely to be weight related." As Dr. Andrew testified, and the Initial Brief of the Newspaper Association of America, at page 37, itself recognizes, there simply is no good evidence for this proposition. See Dr. Andrew's responses to NAA/AMMA-T2-1 (d), (f)-(h), (j)-(m). Absent solid facts on costs (and drop shipment savings) on pieces weighing less than the break point, the economic efficiencies of passing through all cost savings articulated by Dr. Andrew and endorsed by the Commission in MC95-1 (recapitulated by Dr. Andrew at Tr. 20/10132)

ought to prevail; the full dropshipment savings to the Postal Service should be recognized as discounts in the Standard (A) mail rates.

2. Subsidies of Standard (A) Mail

Dr. Andrew demonstrated that was utterly no evidence for Dr. Clifton's assertion that Standard (A) mail was being subsidized for the second and third ounce rates paid by First-Class mailers. Tr. 36/19706-08. Although the NAA Brief, at page 22, paraphrases the "apparent subsidy" argument voiced by Dr. Clifton, it treats not all with the persuasive counter-proof made by Dr. Andrew. Dr. Andrew has a decided evidentiary advantage here; he has evidence where Dr. Clifton has none. The Commission must not consider burdening Standard (A) mail with the consequences of any adjustment to the second and third ounce rates for First-Class mail.

3. The Costs of Workshared First-Class Mail

There is conflicting evidence concerning the cause of an apparent downward tendency in the average cost per piece First-Class workshared mail. The rebuttal testimony of Gary M. Andrew, sponsored by AMMA, among others, (MOAA, et al.-RT-1, Tr. 36/19663-19729) demonstrated that changes in the mix of the First-Class mail stream, rather than decreases in the costs of the various categories of First-Class mail, accounted for the lowered average cost per piece of First-Class mail observed by Dr. Clifton:

The volume of nonautomation First-Class workshared mail declined 12.7 percentage points from 41.4% in 1994 to 28.7% in 1996. From 1994 to 1996, the volume of automation First-Class workshared mail increased 12.7 percentage points from 58.6% to 71.3%. A shift in volume within workshared mail of this magnitude from a higher cost rate category of mail to a lower cost rate category of mail would cause a reduction in overall unit costs in the CRA.

Tr. 36/19695 ll. 11-15. Dr. Clifton's sponsors contend that a cross-examination exhibit employed in their interrogation of Dr. Andrew proves that ". . . the difference in the two [weighted average costs] must be due to factors other than mail mix changes, e.g., due to reclassification and that workshare FCLM mail processing unit costs are declining." Joint Initial Brief of American Bankers Association, Edison Electric Institute and National Association of Presort Mailers at 7 ("ABA/EEI/NAPM Brief"). The cross-examination exhibit which was transcribed into the record at Tr. 36/19769, purports to establish that through the 1994-1996 period examined by Dr. Clifton only 5.2 percent of the 13.8 percent of the FCLM mail processing unit costs to which Dr. Clifton testified were due to changes in mail mix.

There is an elemental flaw to this demonstration that renders it meaningless. As note 1 to ABA/EEI/NAPM Cross-Exam. Exh. 1 discloses, the purported actual cost data used compares only three digit automation costs with the modeled costs of nonautomation mail. This is very different from what Dr. Clifton did. He testified that when he used the phrase "Presort Letters and Parcels" (which was the category found by Dr. Clifton -- in his Table 7, Tr. 24/12479 -- to have enjoyed the 13.8 percent cost decrease emphasized in the ABA/EEI/NAPM Brief) he was talking about all of the categories of mail listed on his Table 8 (Tr. 24/12482) except for "Non-Presort ZIP+4 Letters". The counterproof offered up in the ABA/EEI/NAPM Brief is utterly irrelevant because it neglects the automation five digit and carrier route mail that was a crucial part of Dr. Clifton's analysis. This mail is demonstrably less costly to the Postal Service (see USPS-29C page 1 of 6).

4. The Chown "Metric"

The NAA Brief somewhat mischaracterizes a portion of Dr. Andrew's testimony concerning Ms. Chown. Dr. Andrew's point concerning the relationship between functions and incremental costs, discussed in the NAA Brief at 17, was that even had Ms. Chown succeeded at an accurate calculation of the incremental costs of functions performed by the Postal Service, that information would not be helpful to the Commission because the Commission does not establish rates for functions. It may be true that "the Postal Service essentially gives many mailers the choice of buying mail processing and/or transportation from either the Postal Service or a private alternative" as NAA contends. But the Commission does not establish rates for mail processing or transportation. Thus, incremental cost information concerning these functions is substantially, if not completely, irrelevant to the Commission's mission.

The NAA Brief (at pages 17-18) cites to a cross-examination exhibit employed in the NAA's examination of Dr. Andrew to rebut his demonstration of the volatility of the Chown "metric". We are at a complete loss to understand how the exhibit accomplishes that outcome, as it contains an assumption that contradicts what Dr. Andrew showed. Dr. Andrew's illustration established that when one adds system-wide (as opposed to function identifiable) institutional costs to the system, the Chown "metric" leads to highly unstable outcomes. Tr. 36/19683-84. The cross-examination exhibit transcribed into the record at Tr. 36/19799 shows the Chown "metric" results from adding function identifiable institutional costs to the system. That does not contradict Dr. Andrew, it

simply shows a different outcome driven by different assumptions. Dr. Andrew's demonstration of instability remains intact.

5. The Rate Impact Issues

In response to Presiding Officer's Request for Information No. 18, the Postal Service has explained how the percentage change in Standard (A) revenues was calculated and why that calculation is different than computation of the percentage change for other subclasses of mail. The explanation presents a complete answer to the Information Request. However, the Information Request mischaracterizes what these calculations purport to show: these percentages do not reflect "changes in rates" (Information Request No. 18 at question 1); they reflect percentage changes in average revenue per piece by subclass. See, USPS Response to Information Request 18 at 3. As a result, any attempt to use these percentages in the ratemaking process would be entirely misplaced. Mailers do not pay average revenue per piece. Mailers pay rates, and it would be sheer happenstance if the rate increases actually experienced by any mailer in any class exactly replicated the average revenue per piece increase for that subclass depicted in the Postal Service's testimony. If the comparisons are made on the basis of "rates" as the statute commands (39 U.S.C. § 3622(b)(4)), it will be seen that the percentage increases of Standard (A) rates are at least comparable -- and in

some respects very substantially higher -- than the increases in rates in all other subclasses.

Respectfully submitted,


A handwritten signature in black ink, appearing to read "Ian D. Volner", is written over a horizontal line.

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CERTIFICATE OF SERVICE

I hereby certify that I have on this date served this document upon all participants of record in this proceeding in accordance with section 12 of the rules of practice.


Ian D. Volner

DATE: April 10, 1998

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